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C O N F I D E N T I A L SECTION 01 OF 05 SHANGHAI 000329

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SUBJECT: SHANGHAI SCHOLARS COMMENT ON JUNE SHANGHAI COOPERATION  
ORGANIZATION SUMMIT IN YEKATERINBURG

REF: A. A) YEKATERINBURG 36

[1](#)B. B) MOSCOW 1696

[1](#)C. C) BEIJING 1844

[1](#)D. D) BEIJING 1589

[1](#)E. E) BEIJING 1698

[1](#)F. F) 08 SHANGHAI 253 AND PREVIOUS

[1](#)G. G) BEIJING 1803

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CLASSIFIED BY: Christopher Beede, Deputy Principal Officer, U.S.  
Consulate General Shanghai, Department of State.  
REASON: 1.4 (b), (d)

[1](#)1. (C) Summary. Shanghai scholars regard the June 15-16 Shanghai Cooperation Organization (SCO) summit in Yekaterinburg as an important step in the development of the SCO as an influential regional organization and one that is broadening its engagement with the international community. Russia's economic woes have forced Russia to become more active within the SCO context on economic cooperation, even if Russia's foremost interests remain counter-terrorism and energy cooperation. The scholars believe there is increased interest among SCO members in use of local currencies (rather than the U.S. dollar) in settling trade accounts, and increased interest in possible creation of an SCO Development Fund or SCO Development Bank. SCO members as a whole and China in particular are worried about the security situation in Afghanistan, and the SCO could play a role in Afghanistan's reconstruction. The SCO is not yet ready to admit new members but took steps to broaden its engagement with regionally important countries by designating Belarus and Sri Lanka as dialogue partners. The Shanghai scholars urged U.S. engagement with the SCO and cooperation through the SCO on Afghanistan issues. One of the scholars likened post-election violence in Iran occurring during the week of our meetings to the Color Revolutions. End summary.

[1](#)2. (C) P/E Section Chief and cleared State summer intern

called on Shanghai scholars during the week of June 22 to discuss their views on the significance and outcomes of the June 15-16 SCO Summit meeting in Yekaterinburg, Russia (refs A-D). Discussants included SHAO Yuqun, Deputy Director of the Center for South Asia Studies at the Shanghai Institutes for International Studies (SIIS), one of China's leading foreign policy thinktanks; Director PAN Guang and Deputy Secretary-General LI Lifan, Center for Shanghai Cooperation Organization Studies at the Shanghai Academy of Social Sciences (SASS); and ZHAO Huasheng, Director of Fudan University's Center for Russia and Central Asia Studies and concurrently Director of Fudan's own, separate Center for Shanghai Cooperation Organization Studies. (Note: East China Normal University in Shanghai is establishing a new SCO-related research institute this year as well. End note.)

#### Building Institutional Confidence and Seeking New Opportunities

13. (C) SIIS's Shao Yuqun described the summit and the published declaration as showing that the SCO is becoming more self-confident as a regional organization. She emphasized that the SCO is defining its role on international issues and that the SCO believes it can play an important role in resolving global issues, such as financial instability, drug trafficking, and terrorism. In 2005, the SCO member states had been "nervous" due to the presence of NATO in Afghanistan and other events. In part because NATO has not been very successful in the region, the SCO has grown more confident that it can play a positive role in Central Asia and Afghanistan. Shao said that the SCO wants the United States and the West "to hear the voice from this region." The SCO is also becoming involved in building security architecture for the whole Asia-Pacific region. At the summit, SCO heads of state discussed the North Korean issue, even though that problem is in Northeast Asia, not Central Asia. In addition, Shao explained that the SCO is expanding its scope, as evidenced by the designation of Sri

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Lanka and Belarus as SCO "Dialogue Partners." Fudan's Zhao Huasheng believed the Yekaterinburg Summit marked an important step forward for the SCO. Zhao was impressed that Russia is becoming more active in promoting the SCO, hosting the summit and showing more concern about the security situation in Afghanistan.

#### Economic Cooperation, Local Currencies for Trade Settlement, Financial System Reform

14. (C) SASS's Pan Guang believes that the SCO is becoming more important as a result of the global financial crisis and the difficult security situation in Afghanistan. The severe negative impact that the financial crisis has had upon Central Asia and Russia has spurred greater economic cooperation in the SCO. According to Pan, in the past Russia was not interested in increasing economic cooperation, rather Russia focused on anti-terrorism, joint military exercises, dealing with NATO, and seeking support during the war with Georgia. Pan remarked that Russia was worried about China's economic influence in Russia's "backyard," but as more and more development projects have been scrapped, along with decreased oil prices and rising unemployment in Russia and Central Asia, Russia has embraced the idea of economic cooperation within the SCO. Shao stressed that the global financial crisis had badly hurt Central Asia, but China has met the challenges by providing economic assistance and investment. In the past, economic cooperation amongst SCO members has not been very successful but some progress has been achieved recently. The Chinese Government has begun to compare economic cooperation in the SCO and economic cooperation in ASEAN, where there has been much more rapid progress. Holding a similar view with Pan, Shao explained that China and Russia have different priorities in the SCO: Russia's emphasis has not been economics, but rather energy and counter-terrorism in the Commonwealth of Independent States (CIS), and this has been a hindrance to increased economic cooperation. According to Pan, Russia has realized that it cannot deal with the financial crisis alone, and thus the crisis has been "an opportunity" to

promote economic cooperation within the SCO.

15. (C) Pan's key point was that in dealing with the financial crisis and promoting development in Central Asia, "you can't do anything without money." Fudan's Zhao concurred, stating that the lack of credit available in the past was a hindrance to moving forward on economic cooperation. Pan believes the solution to this problem is the creation of an SCO Development Fund or Development Bank. Although no agreement was reached in discussions at the Yekaterinburg Summit on an SCO Development Bank, the idea is gaining currency, Pan asserted. Pan also relayed that SCO members are becoming more interested in using local currencies, such as the Chinese renminbi and the Russian ruble, to conduct bilateral trade. The SCO has been a conduit in which to encourage the use of local currencies in bilateral trade in the near term to avoid the negative influence of a weakened U.S. dollar. The SCO has also been a facilitator for bilateral trade agreements and huge Chinese investments in transportation, customs, and oil and gas.

16. (C) On international finance, Shao said that it is the responsibility of the "big members to help the smaller members" within the SCO framework. Shao said that the BRIC group, of which three SCO participants (two SCO member states and SCO observer India) are part, want their voice heard about the global financial crisis and reform of the international financial system. This stems in an important part because of the impact the global financial crisis has had upon on the spread of terrorism. Pan commented that reform is needed in the G-20 and in the international financial system but did not elaborate. Zhao commented international financial system reform is seen as necessary by the SCO participants in order to make the system more "just" and "favorable" to developing countries.

#### Energy Cooperation

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17. (C) With regards to energy, Shao explained that China and Kazakhstan have resisted Russian efforts in creating an "energy club" within SCO, citing Chinese concerns over western attitudes towards such a club. According to Shao and Zhao, the SCO can promote energy cooperation among state members, but bilateral means are used to achieve tangible signed deals on energy cooperation.

#### Afghanistan, Terrorism, Regional Security, Manas Airbase

18. (C) Shao believes that the most successful area of cooperation between SCO member states is counter-terrorism. Shao said that terrorists have begun moving from Afghanistan and Pakistan and into Tajikistan and the Ferghana Valley, sparking the concern of SCO members. Pan also emphasized that the SCO and China are very concerned about the security situation in Afghanistan. With Islamic influence on the rise in Central Asia, China remains anxious about Al Qaeda and, in particular, the East Turkestan Islamic Movement (ETIM). Pan remarked that until the UN plays a greater role in Afghanistan, Chinese soldiers and peacekeepers cannot be dispatched because they cannot be under the command of NATO. China is less sensitive to the idea of cooperating with NATO than Russia is, however, and Pan encouraged the idea of high level dialogue between China and NATO on Afghanistan.

19. (C) Pan also discussed U.S. use of the airbase in Manas, Kyrgyzstan. He said that while China believes foreign troops should set a timetable to leave SCO territory, China is hesitant to use strong, critical language of the U.S. military presence in the SCO area. Shao and Zhao also commented that SCO members are nervous about the U.S. military presence in the region. Pan, though, said the precondition for withdrawal of U.S. forces would of course be the situation in Afghanistan, and currently the Afghanistan government struggles to control much of its own territory. Pan warned that civilian casualties in Afghanistan and Pakistan caused by U.S. forces would do nothing to resolve the crises there, adding a reference to Japan's experience in

China during the Second World War.

¶10. (C) Pan and his colleague Li expressed Chinese concern about poverty, unemployment, and social instability and the "three evils" (separatism, extremism and terrorism) in Central Asia. The USD 10 billion loan China granted to the Central Asian member states at the summit is designed to alleviate the impact of the financial crisis, but is also aimed at "creating harmony and peace" in Central Asia. The member states would like to do more on counter drug trafficking, and although they have many mechanisms to do so, there has not been much progress to date. Because the situation in Afghanistan deteriorated in 2007-2008, drug smuggling in the region has peaked. All of the drugs entering China through Xinjiang originate from Afghanistan, Pan asserted. Shao noted that before the next SCO summit, the member states have been tasked to prepare proposals to increase cooperation on drug trafficking issues.

No New Members Soon; Dialogue Partners

¶11. (C) With regards to the new "Dialogue Partners" Sri Lanka and Belarus, Shao explained these nations first expressed their interest in attending SCO activities, after which the SCO member states discussed and approved their attendance. Sri Lanka was important to the SCO because it impacts the security of all of South and Central Asia. Belarus, on the other hand, offers a balance for the Russian side, explained Shao. Pan added that he was surprised that Sri Lanka and Belarus were the first Dialogue Partners, although they are important regionally. (Li added that many Russian scholars were also puzzled as to why these two nations were the first Dialogue Partners). Nepal, Turkey and Bangladesh have all expressed interest in interacting with the SCO, Pan said. Zhao himself said he did not put much meaning behind the addition of "Dialogue Partners," and although it is

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not a bad thing to have dialogue with Sri Lanka and Belarus, the SCO should concentrate on having dialogue with bigger nations and organizations. Zhao said it would be "much more interesting" for the SCO to engage with and cooperate with the United States, the EU and NATO.

¶12. (C) Despite its growing self-confidence and broadening view of its scope of interests and engagement with others, the SCO is not yet mature to admit new full members, according to all of these Shanghai scholars. The SCO is focused on making progress on the existing agreed areas of work and establishing legitimacy as a regional organization in Central Asia. In time, the SCO may be able to consider admitting new members, but until then, the SCO has created "Observers" and "Dialogue Partners" to satisfy interested states. Pan then added he thought the SCO would allow Turkmenistan to join the SCO any time it wished.

SCO Not Anti-U.S., But Won't Carry Our Water, Either

¶13. (C) In 2006, when the SCO summit was held in Shanghai, Shao said, Ahmadinejad's presence caused many Americans to believe China was supporting anti-U.S. sentiment in the SCO. While Shao said that China is certainly interested in developing good relations with Iran, she cautioned that China is trying to avoid anti-U.S. attitudes in the SCO. At the same time, China welcomes Iran to participate in the SCO as an observer because Iran is a big energy supplier and a big regional player. Pan said there was a feeling among SCO members that during the Bush Administration the SCO was viewed as a potential enemy. Zhao also voiced his concern that "western scholars believe the SCO is anti-U.S." Zhao continued that the SCO is not anti-U.S. or a balance against the United States in the region, only that SCO members believe the Color Revolutions brought instability to the region and that the SCO could not be an advocate of U.S. interests.

SCO-U.S. Cooperation - Or at Least Communication?

¶14. (C) Shao said that China is the motivating force behind improved U.S.-SCO relations since 2007 and responsible for the

absence of anti-U.S. remarks at SCO meetings. She said the participation of a U.S. Deputy Assistant Secretary of State at the SCO's conference on Afghanistan convened in Moscow in March 2009 as an indication that U.S.-SCO relations are improving. Shao continued that it is realistic to imagine U.S.-SCO dialogue and cooperation, and that the SCO should play a role in Afghanistan's reconstruction. Because China has no relationship with NATO, Shao suggested that the U.S. and the SCO engage in "track two" dialogue about how to cooperate in Central Asia on issues such as counter-narcotics operations within Afghanistan. Shao suggested that if a dialogue between the U.S. and SCO is "too sensitive," the U.S. should engage in dialogue with each SCO state individually, as the U.S. needs a broader policy for Central Asia. Pan repeatedly said that there is a need for the SCO to work together the United States on Afghanistan. Additionally, Pan mused that "Dialogue Partner" status would be fitting for the United States, the EU and Japan, or that there could be productive "SCO plus 3" discussions. Zhao also thought that "Dialogue Partner" would be an apt way for the SCO to begin to realize its members' largely shared goal of substantive engagement with the United States.

#### Post-Election Violence in Iran: Worryingly like the Color Revolutions

¶15. (C) Because Iran had come up in our discussions with these SCO scholars, we also asked them for their brief views on the post-election violence occurring in Iran during that week of June 22 when we spoke with them. SIIS's Shao said that the situation in Iran reminds most Chinese observers of the Color Revolutions, an unwelcome and worrisome similarity for those Chinese observers. Because the Supreme Leader had told Mousavi and his supporters to cease protests, but the protests continue,

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she saw this as indication that there is outside support to the Iranian protest movement. Shao admitted she has less scholarly familiarity with Iranian issues than with Central and South Asian issues, and said Chinese scholars lack a clear picture of U.S.-Iranian relations. Pan's reply was retrospective, recalling that during his 2005 visit to Iran, many younger Iranians told him that Iran "needs an Iranian Deng Xiaoping" to open Iran's doors to the outside world. Fudan's Zhao said Iran was beyond his scope of research and expertise.

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